The Ultimate

JARGON DICTIONARY

www.ultimatefinance.co.uk/jargon

A

ABL

Asset Based Lending. It is lending that's secured by company assets, for example, stock, machinery, vehicles – and even debtor balances. It is commonly referred to as commercial finance or asset-based financing.

Accrued expenses

An accrued expense is when you have incurred an expense, but haven't yet received an invoice from the supplier.

Accounts payable

This refers to the money you owe to your suppliers.

Acceptance rate

The percentage of customers who have their loan application accepted. See also **Typical APR.**

Accrued income

This is when income has been earned but hasn't yet been invoiced to your customers.

Accounts receivable

This is the money that's owed to you by your customers. Having customers who don't pay promptly or pay late can seriously affect a business's cash flow. That's where Invoice financing can help.

Adverse credit

This is another way of saying that someone has a poor credit history. Everyone who's ever had any kind of credit from a mobile phone contract to a mortgage has a credit history. This is data managed by credit reference agencies who receive a monthly report on payments you've made – or haven't. It's really just a series of ticks and crosses. Payments paid in full get a tick, missed or late payments get a cross – you definitely don't want the latter as this information can be held for six years and affect your credit rating.

Affordability assessment

When you apply to borrow, responsible lenders do an assessment to check that you can afford to pay it back. We lend to businesses to help them become more profitable, not lead them into debt. The reality is though, that some lenders don't do these checks, which can lead people further into debt.

Aged

Invoices over 90 days old are said to be aged. Of course, chasing up invoices can be a real struggle when you have so many other demands on your time. But it needs to be done because you need that money pumping through your business. That's why we offer Invoice financing. We advance you the money and we can even do the chasing up for you so you get the money you need when you need it.

AltFi

Stands for Alternative Finance.
Alternative finance refers to financial channels that are outside the 'traditional' system. Alternative finance offers a competitive alternative to banks and capital markets – which is exactly what we do.

Since we launched 16 years ago, we've lent over £1 billion to help businesses of all shapes and sizes.

APR - Annual percentage rate

This is the real rate of interest you have to pay over a year on the amount you borrow. It factors in fees, charges and admin costs.

Not only does it show you the real cost of borrowing, it makes it easier to compare different products.

Arrangement fee

This is an administration charge made by lenders for arranging credit, for example on a business loan.

Arrears

When you fail to keep up with loan or mortgage and your repayments are overdue then your account goes into arrears which in turn, can affect your credit rating. The amount of the arrears is calculated as the amount due from the date on which the first missed payment occurred.

Assets

This is everything your company owns that has financial value. This could be hard assets such as machinery or equipment or intellectual assets, such as your brand or a unique recipe.

Asset finance

All businesses need funding to help them grow. Asset finance gives you the funding you need without you having to pay the big upfront costs. This is how our Asset finance works: We buy the equipment you need via a hire purchase or lease agreement, then you pay us back at a fixed rate over an agreed time.

B

Bad debt protection

This is a product that can be added to your invoice discounting or factoring facility that ensures that you still receive payment in the event that your customers can't settle their invoices.

Balance sheet

A balance sheet is a summary statement of a businesses assets, liabilities, and equity as at a specific date.

Balloon payments

This refers to the large lump sum payment made at the end of a loan.

Bootstrapping

Is used to refer to a company that is set up with no external investment – literally pulling yourself up by the straps of your boots. These businesses are funded by personal finance, friends or family. Which can be a weighty burden for anyone to carry. It's also more likely that they're compromising on the capital they need to see their business take off. That's why more and more start-ups are looking to external funding as a more viable option.

Break-even point

The point at which the total of fixed and variable costs of a business becomes equal to its total revenue. At this point, a business neither earns any profit nor suffers any loss.

Bridging loan

A short-term loan to 'bridge' a gap between money coming in and money going out. This loan is most commonly used when you need to buy a property before the proceeds of the sale of your existing property are through. They can also be used to fund renovation projects. Our Bridging Loans are competitive and can offer you up to 75% of the property value - this is known as loan to value.

Budget

An estimate of income and expenditure for a set period of time.

Bullet loan

A loan that's repaid by a single repayment.

Base rate

The interest rate set by the Bank of England. It's the rate the Bank charges to other banks, but more importantly, it's used to help guide the economy. When the base rate is low, it costs less to borrow. So, after a period of recession, the Bank may choose to lower the rate to encourage people to spend more. See also Libor.

Burn rate

The speed your company is spending its money. It's usually measured as cash spent per month.

Business credit report

Information is held about your business by credit reference agencies. Potential lenders can access a report to determine how credit worthy your business is - and so gauge the level of risk involved.
It's usually scored from 0-100. The higher the number you score, the lower a risk you are. This makes it easier to borrow and increases your chances of being offered a preferential rate of interest.

C

Capex

Capital expenditure, or **cap**ital **ex**pense, is the money you've got invested in assets – which could be your equipment, vehicles or even your building. It applies not just to the money you're spending at the moment, but your expenditure for future growth.

Capital

An amount of finance provided, generally by the owners or shareholders, to enable a business to acquire assets and sustain its operations.

Caps and collars

Nothing to do with business attire, but the agreed range of an interest rate. A cap is the upper limit, a collar is the lower.

Cash basic accounting

This is an accounting method whereby income and expenses are entered into your account ledger when payments are received or expenses incurred.

Cash advance

When you need quick access to money for a short period. It could be because of a sudden cashflow issue or an opportunity that you simply can't afford to let pass you by. Our Cash advance is the fastest in the market. And because we have pre-approved loans in place for every limited company in the UK (based on Credit Rating) we can have the money in your account within minutes.

Our record is 11 minutes, 16 seconds!

CCC

Cash Conversion Cycle. This is a metric used to gauge your business's financial health. It looks at the length of time it takes to convert inventory into cash. It can be a handy way to identify whether you need more funding to help you generate greater profit. The CCC is also referred to as the "cash cycle."

CCJ

County Court Judgment. A CCJ – or County Court Judgment is a type of court order issued in a response to a debt you haven't paid.
These can really adversely affect your credit rating and, as a result, turn in any future borrowing.

CHOCCS

This is a type of Invoice financing, whereby you borrow cash in exchange for invoices that have still to be paid to you. The acronym stands for Client Handles Own Collections, which means you retain the responsibility for getting paid by your clients.

Compound interest

Two words all borrowers need to know. With compound interest, the interest is worked out based on the lump sum and the interest on top of that too. Which in effect means you end up paying interest on interest. We don't charge compound interest on any of our products.

Companies House

This is the official registrar of all companies based in the United Kingdom.

Consolidation loan

Taking out a loan with a lower interest rate to pay off your other debts.

Construction finance

This is a specialist product for the construction industry. It allows you to borrow against the money you're owed, so you can access the money you need. Simple. Our Construction finance facility offers up to £3 million and the funding can be in your account within a week.

Cooling off period

This gives you a legal right to change your mind provided you put it in writing within 14 days of receiving your signed agreement from your lender. If it's a loan agreement, you'd have 30 days to pay back what you borrowed as well as any interest accrued.

Credit footprint

Every time your business applies for credit there's a good chance it will leave a mark – or footprint – on your business credit report. And this can impact on any borrowing you want to do in the future. That's why when you apply for a loan with us, we do soft credit checks. By using data effectively we can find out everything we need to know, without leaving a credit footprint on your file.

Credit history

This is a record of your repayment capability which lenders will use to assess the level of risk in lending to you. The information can come from a variety of sources from banks to credit card companies and even government agencies.

Credit rating/ score

This is a score that measures your creditworthiness based on your previous credit history. Now, you'd assume we each had a single credit rating, but that's not so. Each lender has their own way of assessing your eligibility and will base their decision on a variety of factors. Even something as simple as not being on the electoral register (which you're legally bound to be) can adversely affect your credit scoring. See also **business credit report.**

Credit reference agency

Independent companies that hold information about businesses and consumers. They provide the information that helps lenders determine your borrowing eligibility. The three main agencies are Experian, Equifax and CallCredit.

Credit search

When you apply for credit whether it's a loan, a credit card or even a new vehicle, your provider will contact a credit reference agency for details of your credit history and any existing credit agreements you might have.

Current assets

Cash or any other assets that can be converted quickly to cash (usually within a year). Also called **Liquid assets**.

D

DDM

Stands for Direct Debit Mandate.
This is an instruction that your customer gives to their bank or building society which authorises you, as a business, to collect payments. The amounts and frequency can vary, provided you let them know in advance how much has to be paid and when you'll be taking the payment. Not to be confused with a Standing order.

Debt consolidation

Transferring your debts onto a single loan or credit card. See also Consolidation loan.

Default

When you fail to make a repayment. Defaults can adversely affect your credit score and could make it harder for you to borrow in the future.

Debenture

An agreement between a company and a lender where the company agrees that the lender is able to have security for any borrowing over all of the company's assets. This means that if the company gets into difficulty a lender can appoint an administrator and also has priority over the company's assets before other people that the company owes money to.

Depreciation

The gradual loss of value of a fixed asset that's listed on the company's accounts. Computer equipment and machinery are examples of fixed assets which depreciate over time.

DMP

Stands for a Debt Management Plan.
If your debts have spiraled out of control a debt management company can help you work out a practical repayment scheme. They can also speak to your creditors on your behalf and try to get them to freeze the interest.

Your creditors, though, are under no obligation to freeze any of your debts. As debt management companies charge a fee, it's worth considering whether you'd be better off approaching your creditors yourself. There are also charities who can help with debt concerns and some can arrange a free DMP for you.

Domicile

The country where a business is legally registered and taxed.

DP

Stands for Debtor Protection. This is a facility that helps protect your business from bad debt.
For example, if a customer fails to pay.

Drawdown

Allows additional borrowing without the borrower having to go through the same paperwork again.

DSO

Stands for Days Sales Outstanding. Otherwise known as how quickly customers are paying the invoices. Getting paid on time is the lifeblood of any company. If you're not getting paid quickly enough Invoice financing could be just what you need.

E

EAR

Stands for Equivalent Annual Rate. This is the interest rate you are charged if you go overdrawn on your current account.

EBIT

Stands for Earnings before interest and taxes. Your EBIT is a measure of your profit that includes all expenses except for interest and income tax.

Early redemption charge/ penalty

A penalty fee that some lenders charge if a borrower repays 'too early'. That's right, some lenders penalise you for paying them back before the agreed time. And the earlier you pay back the higher the charge can be. We think that's grossly unfair, which is why we don't have any early repayment charges.

Early repayment charge

A penalty fee that some lenders charge if a borrower repays 'too early'. **See Early redemption charge/ penalty.**

Economy of scale

The decrease in the average cost of manufacturing when larger quantities are produced.

Eligibility criteria

Every lender has their own way of determining who they'll give credit to and how much. To receive funding you will have to meet their defined eligibility criteria. **See also Affordability.**

Equity

Equity is the value of an asset less the amount of all liabilities on that asset. It can have different meanings depending on the asset, or the context. On a balance sheet, equity represents assets less asset after all debts associated with that asset are paid off.

Equity financing

Equity finance refers to selling shares in your company as a source of finance. Before you do, consider whether you're ready to give up part of your company when there are other sources of funding available that won't result in you losing any of your equity.

Equity kicker

An equity kicker is used in loan agreements, when the lender agrees to charge lower rates of interest in return for a share of ownership.

F

Facility

Financial assistance when you need operating capital. Types of facilities include overdrafts, lines of credit, revolving credit, and letters of credit.

Fixed assets

The fixed assets used in the operation of your business can include property, machinery, furniture, fixtures, It doesn't include raw materials used in production.

Fixed costs

Business expenses that don't change even when production does. For example, salaries and lease expenses.

Fixed rate

An interest rate that stays the same.

Flat rate

You pay a set rate each year of the loan.
For example, if you borrowed £100,000 for 2 years at 5% flat, the interest would be £100,000 x 5%. That's £5000 x 2 (years) = £10,000.

Freehold

Land or property that is owned outright by a company.

FSV

Stands for Forced Sale Value.
A lender's estimate of what an asset might be worth after repossession.

Funding

Funding is money provided for a particular purpose. Growth is essential to business success. And what do you need to grow? Funding. A business loan can be a cost-effective way to give you the funding you need.

Funding line

The total amount a customer could borrow.

Funding stream

Different ways you can access money. For example; loans, crowdfunding, grants and awards.

Funds in use

Total amount that you are borrowing at that point in time.

G

GAAP

Stands for Generally Accepted Accounting Principles. The industry accepted way for preparing your company accounts. Companies must follow these standards and procedures when compiling financial statements.

GDPR

Stands for General Data Protection Regulation. This is a regulation by which the European Parliament, the Council of the European Union and the European Commission intends to strengthen and unify data protection for all individuals within the European Union (EU). Companies must be compliant with the GDPR by 25th May 2018.

Going-concern assumption

A business that's assumed is still going to be operational in 12 months' time.

Gross income

Your earnings before tax is deducted. Sources of gross income includes salary, wages, tips, dividends, interest, rents, pensions etc.

Gross margin ratio

A company's gross profit expressed as a percent of it's sales.

Gross profit/ margin

A company's sales minus cost of sales before deducting administration and selling expenses.

H

HI

Stands for High Involvement.
This is any debtor's balance that represents a significant proportion of the outstanding debts.

Historical costs

This is a method of valuing assets and liabilities based on their original cost without adjustment for changing prices.

Hire purchase

A way of stretching out payments for 'big-ticket' purchases such as machinery.
With a hire purchase agreement, you get the product up front but pay back the cost over the course of several months or even years. You don't legally own the goods until you've paid the cost in full.

HPi

Stands for Hire Purchase information.
A central register where finance companies can access information on a company's assets, whether that's vehicles or machinery.

I

Illustration

An example of the monthly cost of a loan.

Income statement

A written break down of a company's revenues and expenses. It's a helpful way to see a company's financial progress over a period of time. Also called a profit and loss account.

Inflation

When products and services become more expensive, so the cost of living becomes more expensive too.

Invoice financing

In an ideal world, all your customers would pay in full as soon as they're invoiced. Until then, there's Invoice financing. This allows businesses to borrow based on the amount of money that's owed - and we'll even chase up your customers for you.
It works like this: When you issue an invoice, we'll advance you up to 95% of the invoice value straight away. When it's paid, you get the balance minus our fees. It can be a great way to keep on top of your cash flow. Not to mention sparing you the sleepless nights.

IP

Stands for Initial Prepayment or Initial Payment Percentage. This relates to invoice finance and is the percentage amount you're able to release from your invoices.

IRR

Stands for Internal Rate of Return.
Its a way of measuring the return on your investment or the attractiveness of a project or investment.

J

JCT

Stands for Joint Contracts Tribunal.
The Joint Contracts Tribunal produces standard forms of contract for the construction industry.

Joint application

An application made by more than one person.

L

Late payment

If you're 30 days late with a payment on any credit facility then it will be reported to a credit bureau and could affect your credit score
Being 60 days or more late can really impact on your score and can count against you for years.

Ledger/ debtor book

A record of all the invoices that you're still waiting to be paid. **See Invoice financing**.

Lender

A financial provider who lends you funds, for example Ultimate Finance - we're a lender.

Libor

Stands for the London Interbank Offer Rate.
The London Interbank Offer Rate is the rate that banks lend to each other in the London market. Libor changes every day, but for lending purposes it is usually set every three months. The BoE Base Rate, on the other hand, is reviewed by a committee every month.
ICE LIBOR (previously BBA LIBOR) Intercontinental Exchange London Interbank Offered Rate calculates interest rates on various loans throughout the world.

Limited companies

A business that's legally regarded as a separate entity from its owner. The 'limited' refers to the owner's liability – they are only responsible for business debts to the extent of the amount of capital they invested or what they guaranteed.

Liquidity

The percentage of your business's assets that can be quickly converted into cash.

Liquid assets

An asset that can be converted into cash in a short time, with little or no loss in value.
See Current assets.

LLPs

A limited liability partnership (LLP) is one where some or all partners have – you guessed it - limited liabilities.

Loan

A loan is simply money you borrow so you can pay for something that you'd otherwise have to wait to buy. We think of loans as 'good funding'. A way to help businesses get to where they want to be – quicker.

Loan purpose

The reason you need a loan. It could be for something tangible, like new equipment.
Or you might use a loan as a strategic way to manage your cash flow.

Loan term

The agreed time frame that you need to repay what you borrowed, including the interest. This is where you have to read the small print because some providers charge you what can be a hefty penalty for paying back early.
We don't have any early repayment charges so no worries on that front.

M

Monthly mins

The minimum monthly fee agreed at the setup of your invoice finance facility.
See also Invoice financing.

Monthly repayments

The amount you need to repay to your lender each month. It's important to know how the interest is calculated as this will affect not just how much you're paying per month, but how much you're paying in total.
See also Compound interest.

N

Net profit

A company's profits after all costs have been deducted. This is sometimes referred to as the bottom line.

Net worth

The amount by which assets exceed liabilities on a company's balance sheet. Also referred to as equity or owner's equity.

NOLV

Stands for Net Orderly Liquidation Value.
An estimate of the gross amount that a tangible asset would receive in an auction-style liquidation.

Note

A written promise to back funds borrowed, stating the amount, interest rate, method of payment and time frame. This is also called a promissory note.

O

Outgoings

Every expenditure you make to operate your business from staff costs to utility bills.
See also OPEX.

OPEX

Stands for Operating Expenses.
Basically, what it costs to keep your company running. Unlike capital expenses, your operating expenses are fully tax deductible in the year they were made.
And here's the clever bit. An item that would usually come under 'capital expenditure' can have its cost assigned to an operating expense if it's leased rather than bought.

Overdraft

A facility that allows you to still draw from your account (to an agreed limit) when the balance goes below zero. Interest will be charged at an agreed rate and remember, if you go into overdraft without prior agreement then you're likely to face additional charges.

P

Payday loan

This is short-term borrowing that you pay back on your next 'payday.' But buyer beware, because the interest rates are often eye-wateringly high, with lenders typically charging £25 for every £100 borrowed.

PAYE

Stands for Pay As You Earn.
By law, employers have to deduct tax and National Insurance (if liable) from their employees' wages.

Personal guarantee

When you provide a personal guarantee you make yourself responsible for any debts the business can't pay. If a company can't pay its debts it means your own money and assets are at risk.

Personal or unsecured loan

This is a loan that's not secured against a property or asset and is usually for smaller amounts.

Price for risk

Lenders can charge different rates of interest depending on the borrower's credit score. Someone with a low credit score would be regarded as high risk, and so charged a higher rate of interest. On the plus side, if you've got a good credit history you're more likely to be offered preferential rates.

Principal

The original amount of the loan.

Profit margin

Usually expressed as a percentage, this is the money your business has made after all outgoings have been taken into accounts.

Projected costs

What your business expects to spend. This is based on previous spend, but also takes into account the ambitions you have for your business. Once you see what you need to spend to take your business to the next level, you can apply for funding to make it happen.

Purchase finance

A bit like an overdraft facility but finance that's set aside specifically for any type of stock products whether raw-materials or perishables.
It allows you to buy exactly what you need without the worry of paying your suppliers up front. Our Purchase finance works like this: We pay your supplier on your behalf then you pay us back at an agreed date – up to 90 days.

Qualifying criteria

Every lender has their own way of determining who they'll give credit to – and how much.
See also Affordability assessment.

R

Recruitment finance

Offers recruitment companies advance cash so they can pay their wages bills on time.
Our Recruitment Finance facility is a back office and Invoice Finance facility rolled into one. It removes the hassle of unpaid invoices, chasing up outstanding payments, credit control and payroll administration.

Receivables

A short form of accounts receivable, it refers to amounts that your business is owed by third parties.

Regulated

Refers to financial products that are covered by the Financial Conduct Authority. To protect consumers, banks have to adhere to a strict code of conduct.

Repayment holiday

Allows borrowers to postpone their repayments for an agreed time. The cost of the missed repayments is then usually spread across the remaining payment term.

Repayment schedule

This details what you need to pay back and when.

Representative APR

This means the rate shown is just an example of the rate you might get, not what you'll necessarily be offered. That's because lenders only need to give 51% of applicants the representative example rate. A better way to look at it is that this is the best rate you could potentially be offered. Being offered it will depend on you having a good credit history.

Return on investment

The reward earned for investing money into a business. Return may appear in the form of regular cash payments (dividends) to the investor, or in a growth in the value of the amount invested.

Revolving line of credit

This is when a financial provider offers a certain amount of 'always available' credit. The debt is repaid periodically and can be borrowed again once it is repaid.

Rolling interest

Also known as capitalized interest. The interest isn't paid at the end of the interest period but is 'rolled up' until the end of the loan term.

S

Secured loan

Financial providers sometimes ask for the loan to be secured against an asset.
This is really just a way for them to protect themselves if the borrower defaults on the loan and it usually only applies to 'bigger' borrowing. That said, if you have adverse credit, they may need this extra security even for smaller loan amounts.

Self-employed

Someone who runs a business for themselves. Self-employed people aren't paid through PAYE and don't have the same rights as company employees. Lenders tend to class anyone with more than a 25% shareholding in a company as self-employed.

Self-assessment

If you're self-employed, a company director or pay higher rates of income tax, you have to complete an annual Self-Assessment tax return.
This covers any income that falls outside the 'Pay As You Earn' (PAYE) – for example, company dividends.

Service fee

This is a monthly service charge for an invoice finance facility.

Shortfall

When you spend more money than you're making, you have a shortfall.

SME

Stands for small or medium sized enterprises. That's businesses who employ 1-249 people. Over 99% of businesses in the UK are SMEs.

Soft credit search

A credit search that doesn't affect your credit score. See also Credit footprint.

Sole proprietorship

The owner of a business who is personally responsible for its debts.

Sole trader

Any business that's owned by just one person. As a sole trader you can keep all profits (after tax, of course) but you're also solely responsible for any losses.

Split loan

This is when some of the interest on your loan is set at a fixed rate, while the other is a variable rate.

Spot factoring

A way for businesses to fund their cash flow by selling an invoice – or invoices – at a reduced rate to a third party.

SVR

Stands for Standard Variable Rate.
This is an interest rate that goes up or down depending on what the Base rate is doing.

Standing order

An instruction your customer gives to their bank to pay you. They choose the amount and frequency and can change or cancel it without letting you know. A Standing Order is different from a direct debit in that it is for a fixed amount of money, usually over a fixed period of time.

T

Term

The period given to repay the money you've borrowed.

Total amount repayable

This is the amount you initially borrowed plus all the interest and fees incurred.

Trade finance

It's an issue that affects most businesses: Having to supply your product or service before you receive the payment from your customers. Trade finance can give you the funding you need to cover your costs. Our Trade Funding works like this: We pay the supplier on your behalf and you pay us back when the money comes in. It can be a sound strategic option when you need to fulfill a big sales order and we can offer up to £2m for UK registered and domiciled businesses (subject to eligibility.)

Typical APR

The advertised interest rate has to be offered to at least 66% successful applicants.
This means that up to a third of customers may well be offered a higher interest rate. Lenders base the rates they offer on your credit rating.

U

Underwriting

This is the verification process which includes analysing all of the information that has been provided to assess whether an applicant meets the minimum loan criteria and is approved for a loan.

Unregulated

Financial institutions that aren't covered by the Financial Conduct Authority.

Unsecured loan

A loan that's not secured against an asset. Because an unsecured loan is not guaranteed by any type of asset, they tend to be a bigger risk for lenders and, as a result, typically have higher interest rates. An example of unsecured loans are credit cards, student loans and personal loans.

V

Variable rate

An interest rate that can go up or down during the repayment term.

Y

Yield

This is the amount you make on an investment. It is expressed as a percentage of the original investment.

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